



NORTH CAROLINA

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Department of State Treasurer, Investment Management Division Business Case for Two Risk Portfolio Manager Positions

Background on Investment Management Division (IMD)

1. As of January 2013, IMD oversees more than \$90 billion in assets
 - a. \$80 billion for North Carolina Retirement System (NCRS)
 - b. \$14 billion for Cash Management Programs and ancillary programs
 - c. \$40 billion is managed internally in fixed income and \$50 billion managed through external investment managers, funds, and partnerships across a wide range of asset classes (e.g., equities, real estate, alternative investments, credit strategies, and inflation protection strategies)
2. IMD currently has 28 staff positions complemented/supplemented by consultants for special projects, asset liability studies, and implementation of real estate, private equity, credit strategies, and inflation protection asset classes
3. IMD's investment programs have met long-term investment objectives at moderate risk and low cost
 - a. NCRS has a total investment cost of ~0.40% of assets under management (vs. a large pension plan peer median was ~0.55% for 2011; or savings of ~\$120 million per year). The 10-year annualized return through January, net of fees, is 7.53% beating the 7.25% actuarial assumed rate of return
 - b. Cash Management Program has a total investment cost of ~0.03% of assets under management and has exceeded competitive yields, net of fees over long periods

IMD Position Request

1. IMD has been working since mid 2011 to implement ***SAS® Asset Performance Management for Pension Plans*** in order to better diversify and avoid significant investment losses. The project goals include:
 - a. Design and deliver a customized risk management and reporting system that covers individual investments (~23,000), investment accounts (~200), asset classes (6), and the total fund
 - b. Design and deliver optimization and scenario analysis techniques to be used in the portfolio construction process in order to build more risk-efficient portfolios



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- c. Deliver modeling tools so that IMD can better understand the sensitivities of NCRS assets and liabilities (i.e., benefits) in different economic and financial environments
- 2. IMD and SAS expect delivery of the first version of the major risk system modules (i.e., asset class level) to occur around summer 2013, to be followed by expanded functionality in 2014 at the asset class levels and the total fund level. However:
 - a. IMD has only one dedicated risk management position; which has been vacant since Fall 2012. The overall project has been under-resourced which has contributed, in part, to delays
 - b. IMD needs the 2 requested Risk Portfolio Manager positions to work closely with asset classes, external vendors, SAS, and the internal Investment Committee to run the risk system and related processes, including data QA, regular and ad hoc risk analytics/sensitivity testing, and model monitoring and updates/recalibrations over time
 - c. IMD has about one-half of the positions typical for public pension investment organizations, so matrix assignments may occur for the risk positions depending on evolving priorities
 - d. Total annual incremental cost of the two positions is expected to be under \$200,000, which is an immaterial increase in total cost of implementing the investment program (see 3a above)



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